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SUBJECT: MEXICO ECONOMIC NOTES, MAY 19 - MAY 25

Summary

1. (SBU) Mexican inflation, though relatively high, fell in the first half of May. PRI unions stood behind victorious Yucatan gubernatorial candidate Ivonne Ortega, contributing to her victory, despite unions' recent, less-than-active support for PRI candidates. The U.S. and Mexican government began discussing opportunities for cooperation on research on Methane Hydrates, a potential future energy source. Economy Secretary Sojo spoke enthusiastically about Mexico's

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potential for improving infrastructure. End Summary.

Inflation Slows

2. (U) Consumer price inflation fell 0.51% in the first half of May, exceeding the expectations of market analysts who had forecasted a drop of only 0.16%. A Bank of Mexico (BOM) report said that the prices of electricity, onions, and limes dropped and thus resulted in overall lower consumer prices. According to BOM Governor Guillermo Ortiz, inflation expectations are well anchored despite the fact that inflation is at the upper end of the Bank's comfort range. Core inflation rose from 3.72% in April to 3.77%. While analysts are split on whether the BOM will leave borrowing rates at 7.25% or hike rates by a quarter-percentage point on May 25, the new inflation figures will lessen expectations for the latter decision.

PRI Unions Turn Out in Yucatan Elections

3. (U) The winning PRI candidate in the May 20, gubernatorial elections in Yucatan, Ivonne Ortega, received considerable support from organized labor unions affiliated with the party in her campaign. Approximately one week

before the election, post's Labor Counselor traveled to Merida, Yucatan to attend an event organized by the National Union of Railway Workers (STFRM). The PRI candidate briefly attended the event and was escorted throughout by the national leader of the STFRM. Also at the event and publicly supporting the PRI candidate was the Chief of Staff of the CROC, perhaps the third largest national union in Mexico. The day before the election Labor Counselor spoke with several senior officials of the Confederation of Mexican Workers (CTM - roughly equivalent to the AFL-CIO) and they indicated that their union was also putting all of their efforts into supporting the PRI candidate. This united labor front on behalf of a PRI candidate may well have contributed to that party's victory. For the past year or so this type of labor unity in support of the PRI has been the exception and not the rule in Mexico's organized labor movement.

U.S. and Mexico Discuss Methane Hydrates

14. (SBU) Representatives from the Department of Energy and the U.S. Geological Survey met with their Mexican Energy Secretariat and Pemex counterparts to discuss Mexico's

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participation in a combined U.S. and international, public and private research effort to commercialize production of Methane Hydrates, a potential large source of additional natural gas. The group decided that Mexico would seek to host a conference on the topic in the fall of 2007 under the auspices of the North American Energy Working Group (NAEWG) and the SPP to determine how Mexican researchers could best participate. While Mexican institutions have done work in this new field, the GOM is considering whether it can participate fully in the international research project given national sensitivity to working with private firms and foreigners on energy projects, as well as legal restrictions

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on sharing data in the field.

Secretary Sojo Optimistic on Infrastructure Development

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15. (U) Secretary of Economy Eduardo Sojo, speaking at a round table on the future of North American border infrastructure, said that with current economic stability and recent steps toward fiscal responsibility, Mexico is poised to develop its infrastructure and foster further economic growth. Conference participants agreed that continued lack of sufficient infrastructure development will hurt competitiveness in Mexico and the region as a whole. The conference, which included public and private sector representatives from the U.S., Mexico, and Canada centered on the need for improved border infrastructure and solutions to insure increased regional competitiveness.

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